INTERSTATE DEPARTMENT STORES, INC. 1969 ANNUAL REPORT

BID

White Front • California • Anaheim • Canoga Park • Concord • Costa Mesa • Covina • Downey • East Los Angeles • Fresno • La Mesa • Newark • Normandie—Imperial* • Oakland • Ontario • Pacoima Richmond* • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • South Sacramento South San Francisco • Sunnyvale • Torrance • Thousand Oaks • West Los Angeles • Washington Bellevue • Burien • Seattle • Tacoma • **Topps** • Connecticut • Berlin • Fairfield • Hartford—Windsor East Hartford • Middletown • West Haven • Illinois • Chicago, Addison • Chicago, Arlington Heights Chicago, Highland Park • Chicago, La Grange • Chicago, Markham • Chicago, Morton Grove • Chicago, Oak Lawn • Chicago Heights • Downer's Grove • Elgin • Joliet • Rockford • Waukegan • Indiana Clarksville • Gary • Greenwood • Highland • Indianapolis, 38th Street • Indianapolis, Speedway Lafayette • Terre Haute • Iowa • Davenport* • Kentucky • Louisville, Hikes Point • Louisville, Outer Loop Louisville, Dixie Highway • Maryland • Baltimore, Dundalk • Baltimore, Glen Burnie • Baltimore, Perring Parkway • Baltimore, Pike Park Mall • Baltimore, Timonium • Massachusetts • Fall River • Springfield West Springfield • Michigan • Ann Arbor • Detroit, Oak Park • Detroit, Pontiac • Detroit, Redford • Detroit, Southgate • Detroit, Warren • Detroit, Wayne • Kalamazoo • Lansing • New Jersey • Totowa • New York Albany • Buffalo, Central Park • Buffalo, Cheektowaga • Buffalo, Tonawanda • Buffalo, Orchard Park Rochester • Rochester, Greece • Rochester, Henrietta Plaza • Ohio • Canton, Canton, Stark • Cleveland, Maple Heights • Cleveland, Mayfield Heights • Cleveland, Parma Heights • Cleveland, N. Olmstead Cleveland, Willoughby* • Columbus, E. Livingston • Columbus, Morse Road • Columbus, Sullivant • Toledo, Secor Road • Toledo, South Reynold Road • Wisconsin • Kenosha • Madison† • **Toys** • California • Anaheim Covina • Torrance • Van Nuys • Illinois • Chicago, Calumet City • Chicago, Lincoln Avenue • Chicago, North Milwaukee Avenue • Chicago, East 92nd Street • Chicago, South Cicero Avenue • Chicago, Melrose Park • Chicago, Niles • Maryland • Adelphi • Baltimore • Lanham • Marlow Heights • Rockville • Michigan Livonia • Southgate • Virginia • Bailey's Crossroads • Fairfax • Wisconsin • Milwaukee • **Conventional Stores** • Illinois • Aurora Dry Goods, Aurora • Carroll House, Belleville • Peoria Dry Goods, Peoria Rockford Dry Goods, Loves Park • Rockford Dry Goods, Rockford • Waukegan Dry Goods Co., Waukegan Indiana • The Evansville Store, Evansville • The Evansville Store, Lawndale • Stillman's, Fort Wayne Stillman's, South Gate • Hill's, Marion • Stillman's, Muncie • Hill's, Vincennes • Kentucky • Jefferson Dry Goods, Louisville • Paducah Dry Goods Co., Paducah • Michigan • George W. Toeller Co., Battle Creek • The Fair, Court Mall • The Fair, Flint • The Fair, North Flint • Stillman's, Jackson • New York Boston Store, Latham • Boston Store, Massena • Stanley's, Troy • Boston Store, Utica • Ohio • The Boston Store, Springfield • Pennsylvania • Carroll House, Williamsport • South Carolina • Bailes, Anderson • Tennessee • The Knox, Knoxville • Vermont • Economy Department Store, Rutland • West Virginia • The Huntington Store, Huntington • Wisconsin • Fond du Lac Department Store, Fond du Lac

*Opened Spring, 1970
†Closed April, 1970

Interstate Department Stores, Inc.
Annual Report 1969

Directors
Sam J. Abend
Sol W. Cantor
Julian Lavitt
Charles Lazarus
Emanuel P. Lewis
M. Lester Mendell
Albert Parker
Paul D. Preger
Robert Riesner
Edward C. Schenkel
Harold J. Szold
Robert C. Van Tuyl

Officers
Sol W. Cantor, *Chairman*
Robert Riesner, *President*
Julian Lavitt, *Vice President*
Sam J. Abend, *Vice President*
Harry Epstein, *Vice President*
Albert Parker, *Secretary*
Edward C. Schenkel, *Treasurer*
Daniel L. Reit, *Assistant Secretary*

Transfer Agent Bankers Trust Company, N.Y.

Registrar Manufacturers Hanover Trust Co., N.Y.

General Counsel Parker, Chapin and Flattau, N.Y.

Auditors S. D. Leidesdorf & Co., N.Y.

Executive Offices 111 Eighth Avenue, New York, N.Y. 10011

The Company's new corporate symbol, above and on the cover, has been selected as the theme of this year's annual report. Soon it will be used in advertising, publications and correspondence, on stores and trucks, and wherever it may serve to identify the Company's divisions with Interstate. The Company plans to change its corporate name to Interstate Stores, Inc., reflecting its expanding interests, including 30 White Front stores and 70 Topps stores in the discount field; 31 conventional department stores; and its growing interest in specialty fields such as toys, where it now has 21 free-standing discount toy supermarts.

Annual Meeting
Fourth Wednesday in May
Shares Listed
New York Stock Exchange—ISD

To Our Shareholders:

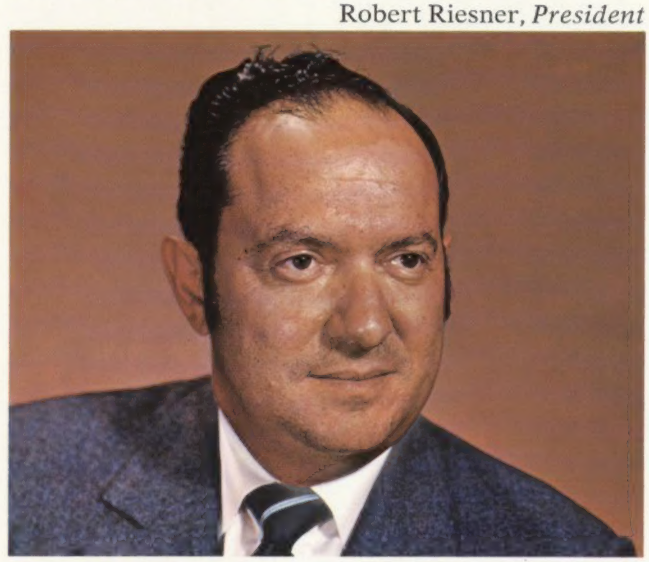
Sales last year once again set new records for the 11th year in a row, although they fell short of reaching the target projected earlier in the year. For the first time in 11 years, earnings showed a decline from the prior year.

Our performance reflected many factors, some external, others internal.

Sales did not reach our objective because of softness in the economy which affected consumer purchasing in the last quarter of the year; increased competition due, in part, to the decision of a number of major conventional retailers to

Sol W. Cantor, *Chairman*

Robert Riesner, *President*



Financial Highlights *(in millions)*	**1969**	**1968**
Total Sales	$702.1	$641.1
Earnings before Taxes	17.1	22.0
Net Earnings	8.8	11.0
Earnings Per Share*	1.70	2.27
Dividends Per Share	.60	.60
Working Capital	50.7	55.3
Current Ratio	1.5 to 1	1.8 to 1
Total Assets	263.1	195.6
Long Term Debt	50.0	42.1
Stockholders' Equity	98.3	76.0

**Based on average number of shares for each year.*

open their stores on Sundays; and a stretch-out in building by the construction industry, as a result of which we were able to open only 17 of the 22 stores originally planned.

Lower earnings were attributable primarily to the economic downturn, higher operating costs, including interest expense on borrowings, and also to the cost of programs undertaken by the Company to expand and strengthen its capabilities and facilities.

New Programs Initiated Last Year

From a long-range point of view, the most significant of the additional costs were those incurred as part of the Company's effort to prepare for the future. Many of these programs were initiated the prior year when Interstate recognized that the increasing complexities of the business, and its growth plans required the development of new systems and expanded resources.

A major objective in 1969 was building a bigger and stronger management team. Our organization was expanded by the addition of a group of young and highly qualified executives. We are now deeper in management talent than ever before and better equipped to run the kind of business we have today and project for the future.

Progress was made in installing an advanced electronic data processing system. By mid-year, the new system will provide management with information on a current, accurate, and comprehensive basis covering almost all aspects of the business. The system cost about $2.5

Leonard Minowitz, Director of Management Information Systems (right), discusses a print-out in the data processing center in New York City headquarters. Now nearing completion are systems that will provide a broad range of management information, including payroll and personnel records, cost accounting, sales analyses and inventory control. After more than four years of testing, systems providing merchandise information were installed last year in all discount department stores. Now in the test stage are systems that will automatically replenish staple items.

million last year to set up and operate, compared with $1.5 million the prior year. When it becomes fully operational this year, we expect to be able to reduce our investment in inventories, decrease our mark-downs, increase productivity in the stores, and increase operating efficiency throughout the Company.

Important changes were made in operating procedures last year, particularly warehousing. In Los Angeles, a new warehouse from which we deliver big ticket merchandise was built. It consolidated the functions of several smaller warehouses and should result in a reduction in operating costs. We also entered into a lease on 200,000 square feet of warehouse space in New Jersey, which can be expanded to 400,000 square feet, as required. This will become our first replenishment warehouse.

Seventeen New Stores Added

We continued our expansion program, with the acquisition of Children's Bargain Town, a chain of eight toy stores, and the opening of 17 new stores. New stores included five additional toy stores, three White Front units, eight Topps stores, and one conventional suburban store. We closed one conventional downtown store and ended up the year with a total of 149 retail stores. To help finance our expansion program, we issued 500,000 shares of common stock which added $15.6 million to our working capital.

An important milestone in 1969 was the extension of our record of continuous dividends to 30 consecutive years. We are pleased with this record. It testifies not only to Interstate's capabilities, but also for better than a third of this period to the soundness and viability of the discount retail field.

David Bernstein (right), General Merchandise Manager, and Ralph Merola, Assistant General Merchandise Manager, inspecting late fashions for the new autumn line. Mr. Bernstein and Mr. Merola, appointed to their respective positions in March, 1969, are two of the group of younger executives who have been named to key positions as part of the Company's program of expanding its management organization. Six new merchandise teams were created during the year to provide the greater merchandising specialization required by the Company's rapid growth and steadily increasing volume of buying.

Edward C. Schenkel, Treasurer and a member of the Board of Directors, is responsible for the Company's financial operations. Among the departments that report to him are the controller's office and accounting, taxes, insurance, accounts payable, purchasing and internal auditing. An important part of his function, as above, is meeting with security analysts to keep the financial community up to date on the Company and on trends in the discount retailing industry. Last year, Mr. Schenkel and other officers met with leading security analysts in major financial centers such as New York, Chicago and San Francisco.

Our financial condition continued satisfactory. Working capital was $50.7 million, compared with $55.3 million a year ago, and the current ratio was 1.5 to 1, compared with 1.8 to 1 in fiscal 1968. Total assets increased to $263.1 million, an improvement of 34 per cent. Long-term debt was $50.0 million, compared with 42.1 million the year before. Stockholders' equity reached $98.3 million, an increase of 29 per cent over the 1968 figure of $76.0 million.

We are cautiously optimistic about the future. We are moving ahead with our expansion program. We plan to open more than 20 stores in the current year, which will make it the most ambitious year in our history. It is expected that benefits from our advanced electronic data processing system will be realized when it becomes fully operative in mid-year. The effect of other steps taken to strengthen our capabilities should also become increasingly visible.

An important key to our future will continue to be the state of the nation's economy. If the forces of recession and inflation can be brought under reasonable control, then we can anticipate relief from the squeeze that took place on both sales and earnings late last year, and can look forward to an early resumption of the pattern of profitable growth that has characterized Interstate's operations for the past 11 years.

Sincerely,

Sol W. Cantor
Chairman

Robert Riesner
President

White Front

White Front is a group of 30 discount department stores along the West Coast from San Diego to Seattle. The present prototype store covers 140,000 square feet, which is larger than the average discount department store. White Front accounts for slightly less than half of the Company's total sales volume.

White Front stores are primarily grouped in clusters around major cities. The largest cluster is around Los Angeles, the second largest, San Francisco, then Seattle. This results in important advantages in warehousing and distribution, and in advertising and merchandising. With multiple stores in each market, joint advertising and sales promotion programs can be undertaken on a highly efficient and effective basis.

White Front's reputation was established by its comprehensive assortment of major appliances and television sets at low prices. The chain is a major distributor of brand name "big ticket" merchandise from manufacturers such as General Electric, RCA, and Admiral.

White Front also has developed important consumer acceptance in other hard lines such as radios and record players, household electrics, housewares and hardware, records and tapes, sporting goods, and automotives. More recently, soft lines—particularly fashion items and infants' wear—have been contributing growing volume.

Last year, White Front opened three new stores —in Newark, California, as part of the San Francisco store complex; Bellevue, Washington, a Seattle suburb; and Thousand Oaks, California, near Los Angeles. Stores were opened early this year at Normandie-Imperial in Los Angeles and Richmond in northern California.

For the remainder of the current year, five additional openings are planned. Los Angeles is White Front's headquarters and its strongest market, and present plans for the area call for growth from the present 13 stores to 17 by the middle of 1971.

Exterior of the new Normandie-Imperial White Front, which opened in March, 1970. It is part of the Los Angeles complex of stores. Television and radio sets (bottom left) and phonograph records (below) are among the featured departments.

Topps

The Topps division is a chain of 70 discount department stores in the Northeast and Midwest. During the past several years, the prototype Topps store has grown from about 60,000 square feet to 90,000 square feet, as consumer demand dictated new merchandise departments and additional space for some older ones.

As with White Front, many Topps stores are clustered around major cities (such as Chicago, Cleveland, Detroit, and Baltimore) in order to effect the same marketing and merchandising advantages.

Topps' original reputation was based on soft lines, particularly on clothing for the entire family, including fashion items. During the past year, Topps successfully introduced its new "The Scene" shops, featuring coordinated fashions for younger women.

Other lines, however, are assuming increasing importance. Major appliance departments have been included in a number of stores following merchandising policies similar to White Front's. In the newer stores, floor covering departments have been expanded to include broadloom carpeting, which is expected to become a popular "big ticket" item. Reflecting the country's growing interest in leisure time activities, additional space is being allocated to sporting goods, phonograph record, and toy departments.

As inflation has eroded the consumer's dollar at all income levels, Topps has attracted not only its traditional middle income customer, but a more affluent one as well—drawn by a combination of good values and a more attractive shopping atmosphere. Topps has added many items which are higher priced than the traditional "top of the line," while representing the same good discount values.

Last year, Topps added two more stores in the Louisville market, three in the Chicago market, and one each in the Detroit, Baltimore, and Toledo areas. Early this year an additional store was added in the Cleveland suburbs, and one in Davenport representing Topps' first store in Iowa.

Plans for the remainder of the year call for six more openings, including the beginning of a new store complex in the Philadelphia area.

Two departments in the new Topps store in Willoughby, Ohio, a suburb of Cleveland. "The Scene" shop (left) offers coordinated fashions for younger women. Artificial flowers, lamps and gifts (above), are increasingly popular.

Toys

There are now 21 discount toy supermarts in the Company's chain. Toys-R-Us operates 11 toy supermarts in the suburbs of Washington, D. C., Baltimore and Los Angeles, and Children's Bargain Town U.S.A. has ten toy supermarts in the suburbs of Chicago, Milwaukee, and Detroit. Five of the units were opened during the past year.

All of the toy stores feature brand-name, nationally advertised merchandise, sold self-service at prices substantially lower than those of conventional toy retailers, and with a money-back guarantee.

For the current year, a total of ten new discount toy supermarts is planned.

Important among this year's openings will be the entry of Children's Bargain Town U.S.A. into the New York City metropolitan area, and of Toys-R-Us into the San Francisco Bay area.

The first of 12 projected Children's Bargain Town U.S.A. supermarts in the New York market is scheduled to open in the fall at Commack, a Long Island suburb about 45 miles from Manhattan.

At 50,000 square feet, it will be the biggest toy retailing operation in the metropolitan New York area. Located on a six-acre site, with parking for more than 400 automobiles, it will display more than 12,000 items, including toys, games, books, wheel goods, and children's furniture.

Additional Children's Bargain Town U.S.A. units are contemplated on Long Island, in the outer New York City boroughs, and in the Westchester and nearby New Jersey suburbs.

Toy-R-Us plans to open in the San Francisco Bay area market this year with two discount toy supermarts: one at Sunnyvale, near San Jose, and the other at Pleasant Hill, just outside Oakland. They will be the first of eight supermarts projected for the area.

Selection of the New York metropolitan and San Francisco Bay areas was motivated by the importance of the markets. New York City is the number one market in the country. San Francisco Bay is comparable in importance to the Washington, D. C., market in which Toys-R-Us had its initial growth.

The colorful exteriors of Interstate's discount toy supermarts attract parents as well as children. The marts carry a comprehensive assortment of brand-name merchandise, as illustrated (below) by rows of tricycles, wagons, autos and other wheel toys.

Conventional Stores

Interstate now owns and operates 31 conventional department stores in 12 states in the Northeast, Southeast, and Midwest. Last year, once again, they set records in both sales and contributions to earnings.

Many of Interstate's conventional department stores are leaders in their communities and bear well-established and respected names such as The Fair, Boston Store, Stillman's, Evansville Store, and Huntington Store. Merchandise is popularly priced with heavy emphasis on up-to-the-minute fashions for the entire family.

During the past year, one of the fast-growing departments was young men's wear, where style and color have become all-important and "the look" is a must. "The Trend" shops were introduced to appeal to this market. Also introduced were "The Place" shops for young women, and "The World of Youth" for girls from ages three to 14.

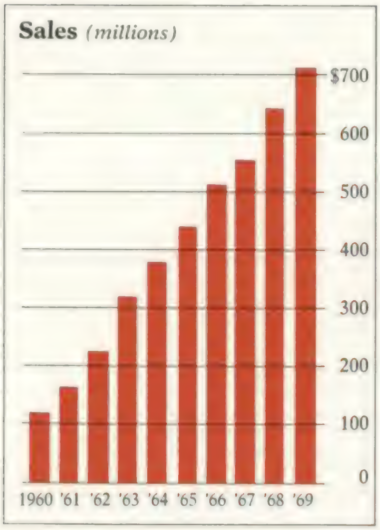
Chain-wide, the program of store renovation continues. Major renovations were undertaken in the Latham, N. Y., Boston Store, the Loves Park, Ill., branch of Rockford Dry Goods, and The Knox, in Knoxville, Tenn.

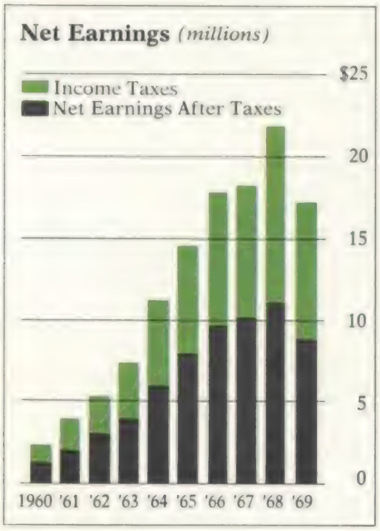
One new conventional department store was added last year—a third branch of The Fair, the dominant department store in Flint, Michigan.

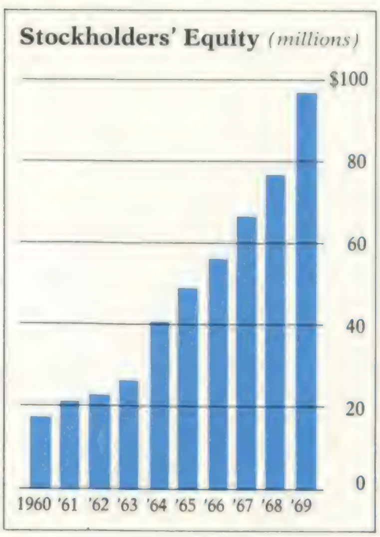
For the current year, one opening is planned—a Boston Store, in Niskayuna, N. Y., to serve the Albany-Schenectady market. It will be a branch of the Latham store.

Three departments in the Company's newest conventional department store—the third branch of The Fair, in Flint, Michigan. A women's fashion department and a cosmetics counter (above) and the new Trend Shop featuring young men's wear (left).

Ten Year Financial Review







Operations	**1969**	**1968**	**1967**
Total Sales	$702,071,000	$641,069,000	$558,082,000
Discount Store Sales (including Toys)	626,801,000	569,527,000	493,599,000
Conventional Store Sales	75,270,000	71,542,000	64,483,000
Earnings before Taxes	17,100,000	21,981,000	17,797,000
Net Earnings after Taxes	8,800,000	10,981,000	10,197,000
Earnings Per Share*	1.70	2.27	2.16
Financial			
Working Capital	$ 50,673,000	$ 55,290,000	$ 57,142,000
Current Ratio	1.5 to 1	1.8 to 1	1.9 to 1
Total Assets	263,057,000	195,593,000	165,610,000
Fixed Assets	78,427,000	55,847,000	37,228,000
Long Term Debt	49,972,000	42,146,000	34,732,000
Stockholders' Equity	98,301,000	76,031,000	66,706,000
Dividends Per Share—Cash*	.60	.60	.48
—Stock Dividends	—	—	—
—Stock Splits	—	—	5-for-4
Stores			
Discount	97	86	75
Conventional	31	31	32
Toys	21	8	6
Total	149	125	113

**Based on average number of shares for each year, adjusted to give effect to all stock dividends and stock splits.*

1966	1965	1964	1963	1962	1961	1960
$505,017,000	$433,631,000	$384,867,000	$311,153,000	$222,807,000	$165,219,000	$114,311,000
444,223,000	377,426,000	330,691,000	256,375,000	167,481,000	108,462,000	55,255,000
60,794,000	56,205,000	54,176,000	54,778,000	55,326,000	56,757,000	59,056,000
17,340,000	14,433,000	11,122,000	7,122,000	5,249,000	3,829,000	2,385,000
9,790,000	7,933,000	5,922,000	3,907,000	2,909,000	2,079,000	1,490,000
2.13	1.79	1.41	1.05	.79	.57	.42
$ 37,641,000	$ 38,769,000	$ 37,618,000	$ 28,178,000	$ 14,786,000	$ 14,904,000	$ 10,661,000
1.6 to 1	1.9 to 1	2.1 to 1	2.1 to 1	1.5 to 1	1.9 to 1	1.7 to 1
133,015,000	108,366,000	91,287,000	68,610,000	59,670,000	45,268,000	37,554,000
27,380,000	19,158,000	12,925,000	9,557,000	9,780,000	8,340,000	7,698,000
13,559,000	13,792,000	15,580,000	15,619,000	5,962,000	6,960,000	3,336,000
57,843,000	48,648,000	40,639,000	26,363,000	23,218,000	20,620,000	18,917,000
.46	.39	.30	.22	.17	.14	.12
4%	4%	4%	4%	4%	2%	5%
—	—	2-for-1	—	—	3-for-1	—
66	59	58	51	44	25	20
31	31	32	34	36	37	41
4	—	—	—	—	—	—
101	90	90	85	80	62	61

Consolidated Balance Sheet

	1969 (Feb. 1, 1970)	1968 (Feb. 2, 1969)
Assets		
Current Assets:		
Cash (including, in 1968, Certificates of Deposit)	$ 10,046,000	$ 4,105,000
Short-term investments—at cost	1,295,000	
Accounts receivable:		
Customers (net of reserves of $448,000 and $605,000, respectively)	11,977,000	11,227,000
Other (Note F)	10,879,000	9,640,000
Merchandise inventories (at the lower of cost or market, determined principally by the retail method) (Note J)	121,229,000	100,747,000
Prepaid expenses	2,796,000	2,135,000
Total Current Assets	158,222,000	127,854,000
Other Assets (Note F)	5,398,000	2,652,000
Fixed Assets—at cost (Note B):		
Land and buildings	31,080,000	18,581,000
Furniture and equipment	44,836,000	33,729,000
Leaseholds and leasehold improvements	20,260,000	16,444,000
	96,176,000	68,754,000
Less: Reserves for depreciation and amortization	17,749,000	12,907,000
	78,427,000	55,847,000
Deferred Charges	2,628,000	1,652,000
Intangibles Applicable to Subsidiaries Acquired (Note A)	18,382,000	7,588,000
	$263,057,000	$195,593,000

See accompanying notes

	1969 (Feb. 1, 1970)	1968 (Feb. 2, 1969)
Liabilities		
Current Liabilities:		
Notes payable—banks	$ 6,169,000	
Current installments of long-term debt (Notes B and C)	1,151,000	$ 901,000
Accounts payable—trade	71,856,000	48,599,000
Accrued expenses and other liabilities	19,708,000	12,388,000
Taxes withheld and accrued, other than Federal income taxes	4,647,000	4,187,000
Accrued Federal income taxes	4,018,000	6,489,000
Total Current Liabilities	107,549,000	72,564,000
Long-term Debt (Notes B and C)	49,972,000	42,146,000
Deferred Items (including Federal income taxes of $4,728,000 and $2,893,000, respectively)	7,235,000	4,852,000
	164,756,000	119,562,000
Stockholders' Equity (Notes C, E and I):		
Common Stock (stated at par value of $1 per share, plus $1,271,000 retained as Capital by resolution of the Board of Directors):		
Shares — Authorized: 1969 10,000,000; 1968 6,500,000		
Shares — Issued: 1969 5,438,000; 1968 4,908,000	6,709,000	6,179,000
Capital Surplus	48,771,000	32,803,000
Retained Earnings	42,821,000	37,122,000
	98,301,000	76,104,000
Less: Treasury Stock—at cost—17,000 shares		73,000
	98,301,000	76,031,000
Lease Commitments and Other Comments (Notes G, H and L)		
	$263,057,000	$195,593,000

to financial statements.

Consolidated Statement of Earnings and Retained Earnings

	1969 (Year Ended Feb. 1, 1970)	1968 (Year Ended Feb. 2, 1969)
Net Sales:		
Owned departments	$545,552,000	$483,988,000
Leased departments	156,519,000	157,081,000
	702,071,000	641,069,000
Cost of Sales (including certain buying, occupancy and distribution expenses)	558,750,000	514,172,000
	143,321,000	126,897,000
Selling, General and Administrative Expenses	127,178,000	106,944,000
	16,143,000	19,953,000
Other Income—Net	4,338,000	3,632,000
	20,481,000	23,585,000
Interest Expense	3,381,000	1,604,000
Earnings before Federal Income Taxes	17,100,000	21,981,000
Provision for Federal Income Taxes (Note D):		
Current	6,465,000	10,255,000
Deferred	1,835,000	745,000
	8,300,000	11,000,000
Net Earnings	8,800,000	10,981,000
Retained Earnings—at beginning of year	37,122,000	29,058,000
	45,922,000	40,039,000
Cash Dividends Declared	3,101,000	2,917,000
Retained Earnings—at end of year (Note C)	$ 42,821,000	$ 37,122,000
Per share of Common Stock (Note K):		
Net earnings—assuming no dilution	$1.70	$2.27
Net earnings—assuming full dilution	$1.60	$2.10

See accompanying notes to financial statements.

	1969 (Year Ended Feb. 1, 1970)
Source of Funds	
Net earnings	$ 8,800,000
Depreciation and amortization	4,801,000
Increase in deferred items (including increase in deferred Federal income taxes of $1,835,000)	2,383,000
Issuance of treasury stock	620,000
Increase in long-term debt—net (before deducting $178,000, net of related expenses, of Debentures converted into Common Stock)	6,572,000
Exercise of employee stock options	144,000
Sale of capital stock	15,630,000
Decrease in working capital	4,617,000
	$ 43,567,000
Application of Funds	
Fixed assets acquired under modernization and expansion program—net	$ 23,838,000
Cash dividends	3,101,000
Increase in other assets, deferred charges and intangibles	4,452,000
Consideration paid for purchase of a group of corporations, in excess of working capital acquired	12,176,000
	$ 43,567,000

Notes to Financial Statements

Note A—The consolidated financial statements include the accounts of the Company, all subsidiaries and all majority-owned joint ventures. See Note F with respect to 50% owned corporations and joint ventures not consolidated.

In March 1969, the Company purchased all the outstanding capital stock of Steel City Department Stores, Inc. and affiliated companies (who are engaged in the retail toy business) for $15,000,000. The operations of these businesses have been included with consolidated results since date of acquisition. As of that date, the purchase price exceeded the net assets of the acquired companies by approximately $10,000,000; this excess has been allocated to "Intangibles Applicable to Subsidiaries Acquired". In the opinion of management, no amortization of these or other intangibles is required, since there is no indication of loss of utility or of limitation on the useful lives thereof.

Note B—For financial reporting purposes, depreciation and amortization ($4,801,000—1969; $3,507,000—1968) are computed by the straight-line method.

Fixed assets having a depreciated cost of $24,861,000 are pledged as collateral for obligations of $21,777,000 included in long-term debt—see Note C.

Note C — Long-term debt consists of the following:

5⅜% Notes payable—insurance companies	$ 8,000,000
4⅝% Convertible Subordinated Debentures due August 1, 1981	716,000
4% Convertible Subordinated Debentures due August 1, 1992	20,000,000
Mortgages payable (Note B)	21,777,000
Other	630,000
	51,123,000
Less: Current installments	1,151,000
	$49,972,000

The 5⅜% Notes are payable $500,000 a year through 1976, $600,000 a year from 1977 through 1982 and $900,000 in 1983.

The indentures applicable to the 4⅝% and 4% Debentures require annual redemptions of $275,000 and $900,000, respectively, aggregating as follows: $275,000 through 1977, $1,175,000 from 1978 to 1980, and $900,000 from 1981 to 1991. Each Debenture's annual redemption requirement is subject to reduction, at the Company's option, for prior conversions which aggregate $5,144,000 (applicable solely to the 4⅝% Debentures) as at February 1, 1970. It is the Company's present intention to exercise this option. The 4⅝% and 4% Debentures may be converted into Common Stock at conversion prices of $9.40 and $43.89 a share, respectively. During the year, $181,000 of 4⅝% Debentures were converted into 20,000 shares of Common Stock, resulting in increases in Common Stock of $20,000 and in Capital Surplus of $158,000 (net of related unamortized debt discount and expense). Based upon the foregoing conversion prices, the outstanding Debentures at February 1, 1970 may be converted into 532,000 shares of Common Stock.

Formulae contained in certain of the loan agreements limit the aggregate amount of cash dividends to approximately $35,350,000 as at February 1, 1970.

The mortgages bear interest at annual rates of 4½% to 8½% and are payable in varying installments with final payments becoming due in 1971-1999.

As at February 1, 1970, certain of the Company's subsidiaries (engaged in real estate operations) had received commitments for mortgage financing in the aggregate amount of $8,800,000.

See Note F as to long-term debt (not included herein) of 50% owned corporations and joint ventures.

Note D —The Company intends to file a consolidated Federal income tax return with its subsidiaries for the fiscal year ended February 1, 1970; in prior years, separate tax returns were filed.

Note E—Under the Company's stock option plans, options for 104,000 shares may be granted to 1973 and for 95,000 shares to 1978, at not less than fair market value at date of grant; depending on the plan, options are either exercisable 25% a year (on a cumulative basis) commencing one year from date of grant or exercisable in full after four years and nine months from date of grant. Options expire five years from date of grant. During the year, options (1) were granted for 39,000 shares, (2) lapsed for 5,000 shares and (3) were exercised for 10,000 shares resulting in credits to Common Stock ($10,000) and Capital Surplus ($134,000). At February 1, 1970, options were outstanding for the purchase of 158,000 shares at prices ranging from $10.79 to $45.38 a share.

Note F — Subsidiaries of the Company have 50% interests in a number of corporations and joint ventures, whose functions are to acquire properties, construct store buildings thereon and lease all or substantial portions thereof to other subsidiaries. The investments in (carried at proportionate share of underlying equity) and advances to these companies aggregated $6,408,000 as at February 1, 1970. Of this amount, $3,447,000 is included in Accounts Receivable —Other and $2,961,000 is included in Other Assets.

As at their respective fiscal year-end dates (December 31, 1969 or January 31, 1970) net fixed assets and long-term debt of 50% owned corporations and joint ventures, not included in the consolidated balance sheet, aggregated $60,565,000 and $44,125,000, respectively. Of the latter amount, $20,050,000 represents obligations of 50% owned corporations and $24,075,000 represents mortgage indebtedness of the joint ventures (as to $2,465,000 of which, subsidiaries of the Company are contingently liable); the mortgages bear interest at annual rates of 5.3% to 8½% and are payable in varying installments with final payments becoming due in 1986-1999. In addition, as at their respective year-end dates, (a) the joint ventures had received commitments for additional mortgage financing aggregating $10,055,000, as to none of which subsidiaries of the Company will be contingently liable, and (b) the Company and certain subsidiaries had guaranteed bank indebtedness of some of the 50%

owned companies aggregating $5,275,000; it is anticipated that this indebtedness will be refinanced on a long-term basis not subject to such guarantee. Data included above with respect to certain joint ventures are based upon unaudited financial statements. Combined financial statements of certain other of the aforementioned 50% owned companies will be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Note G—Minimum annual rentals of real and personal property leased to the Company or to its subsidiaries amount to approximately $16,100,000 (including $5,700,000 applicable to the 50% owned corporations and joint ventures referred to in Note F) plus, in certain instances, additional rentals based upon sales and charges for real estate taxes, insurance, etc. Of the aggregate annual rentals, $4,550,000 expires prior to 1984, $5,150,000 expires between 1984 and 1989, and $6,400,000 expires after 1989.

Note H—At February 1, 1970, the Company is contingently liable for $1,169,000 under an accommodation note (due December 1, 1988) that it issued in connection with a sale-leaseback during a prior year. This contingent liability is subject to reduction to the extent that the lessor makes required payments against a note issued by it.

Note I —During the year, the Company:

(1) increased its authorized shares of Common Stock to 10,000,000 shares,

(2) sold 500,000 shares of Common Stock to the public. The excess ($15,130,000) of net proceeds over par value of the stock sold ($500,000) has been credited to Capital Surplus,

(3) issued 7,000 shares of Treasury Stock as partial payment of its Retirement Income Plan cost; the excess ($202,000) of such payment over the cost of the Treasury Stock issued has been credited to Capital Surplus, and

(4) issued 10,000 shares of Treasury Stock to an employee representing additional compensation for the three year period ending January 30, 1972. There are restrictions on the sale and transfer of these shares and, depending on earnings of certain of the Company's stores, the shares may be subject to retransfer to the Company. The additional compensation is being amortized over the three-year period as earned. The excess ($344,000) of the fair market value of the 10,000 shares over the cost thereof has been credited to Capital Surplus.

See Notes C and E for other stock issued during the year.

Note J — Effective February 3, 1969, the Company changed its method of stating certain portions of merchandise inventories from last-in first-out to average cost, both determined by the retail method. This change had no material effect on the current year's net earnings.

Note K — Earnings per share have been computed in accordance with Opinion 15 of the Accounting Principles Board of the American Institute of Certified Public Accountants. Net earnings per share, assuming full dilution, include, where applicable, the effect of assuming that Common Stock was issued for Debentures converted and Stock Options exercised.

Note L — Subsequent to February 1, 1970 (through April 30, 1970), the Company borrowed an aggregate of $27,000,000 on a short-term basis. Short-term borrowings made subsequent to the end of the prior fiscal year (through April 17, 1969) aggregated $24,000,000.

Accountants' Report

To the Board of Directors
Interstate Department Stores, Inc.
New York, N.Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at February 1, 1970, and the related consolidated statement of earnings and retained earnings and the supplemental consolidated statement of source and application of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the consolidated financial position of Interstate Department Stores, Inc., and subsidiary companies at February 1, 1970, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the supplemental information shown therein.

New York, N.Y.
April 30, 1970

S. D. Leidesdorf & Co.
Certified Public Accountants

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